

**RED OAK  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2005

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**RED OAK COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2004 Election)

Charla Schmid	President	2005
Rod DeVries	Vice President	2004
Bryant Amos		2006
Gale Haufle		2006
Amy Thomas		2005

(After September, 2004 Election)

Charla Schmid	President	2005
Amy Thomas	Vice President	2005
Bryant Amos	(Resigned July, 2005)	
Gale Haufle		2006
Rod DeVries		2007

**SCHOOL OFFICIALS**

Dr. Kevin Brummer	Superintendent
Sue Wagaman	District Secretary/ Treasurer

## Independent Auditor's Report

To the Board of Education of the  
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Red Oak Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Red Oak Community School District as of June 30, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated September 27, 2005 on our consideration of Red Oak Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Red Oak Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 27, 2005

## **RED OAK COMMUNITY SCHOOL DISTRICT**

### **Management's Discussion and Analysis**

Red Oak Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

#### **2005 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$9,426,452 in fiscal year 2004 to \$9,922,111 in fiscal year 2005, while General Fund expenditures increased from \$9,787,132 in fiscal year 2004 to \$10,046,313 in fiscal year 2005.
- The increase in General Fund revenues was primarily due to tuition and state revenue increases. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits, as well as, increased grant activity
- The District had a decrease of 6% in General Fund balance in fiscal 2005. Allowable growth of 4% is inadequate to maintain current programs without using existing reserves.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The government-wide Financial Statements consist of Statement of Net Assets and a Statement of Activities. These provide information about the activities of Red Oak Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Red Oak Community School District operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Red Oak Community School District acts solely as agent or custodian for the benefit of those outside of County government.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
**Red Oak Community School District**

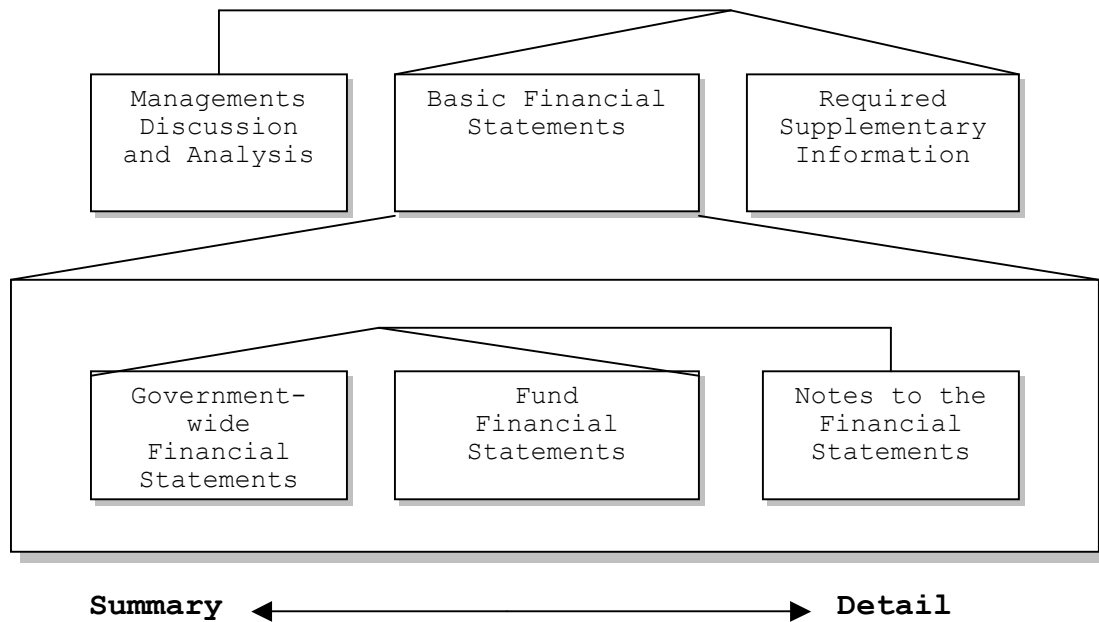


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

**Figure A-2**  
**Major Features of the Government-Wide and Fund Financial Statements**

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues, such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's program.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Fund.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.
- 3) *Fiduciary Funds:* The District is the trustee, or fiduciary, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations for specific purpose in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(expressed in thousands)**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>		<b>Percentage</b>
	<b>Activities</b>		<b>Activities</b>		<b>School District</b>		<b>Change</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2004-2005</b>
	\$	\$	\$	\$	\$	\$	
Current assets	7,301	7,611	239	176	7,540	7,787	-3.17%
Capital assets	11,089	11,283	10	13	11,099	11,296	-1.74%
<b>Total assets</b>	<b>18,390</b>	<b>18,894</b>	<b>249</b>	<b>189</b>	<b>18,639</b>	<b>19,083</b>	<b>-2.33%</b>
Current liabilities	4,700	5,169	29	14	4,729	5,183	-8.76%
Non-current liabilities	8,829	9,240	-	-	8,829	9,240	-4.45%
<b>Total liabilities</b>	<b>13,529</b>	<b>14,409</b>	<b>29</b>	<b>14</b>	<b>13,558</b>	<b>14,423</b>	<b>-6.00%</b>
Net Assets							
Invested in capital assets, net of related debt	2,359	2,133	10	13	2,369	2,146	10.39%
Restricted	869	933	-	-	869	933	-6.86%
Unrestricted	1,633	1,419	210	162	1,843	1,581	16.57%
<b>Total net assets</b>	<b>4,861</b>	<b>4,485</b>	<b>220</b>	<b>175</b>	<b>5,081</b>	<b>4,660</b>	<b>9.03%</b>

The District's combined net assets decreased by over 9%, or approximately \$421,000 over the prior year. The largest portion of the District's net assets is invested in capital assets.

Unrestricted net assets - the part of the net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - increased approximately \$262,000 or 17%. This increase in unrestricted net assets was a result of a 30% increase in business-type activity fund balances as well the use of current resources to pay for fixed assets that are depreciated over the useful lives of the assets.

Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

**Figure A-4**  
**Change in Net Assets**  
**(expressed in thousands)**

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	188	243	431
Operating grants, contributions and restricted interest	1,822	252	2,074
General revenues:			
Property tax	3,674	-	3,674
Income surtaxes	579	-	579
Local option sales tax	592	-	592
Unrestricted state grants	4,886	-	4,886
Unrestricted investment earnings	53	-	53
Other	74	-	74
Total revenues	11,868	495	12,363
Program expenses:			
Governmental activities:			
Instruction	7,061	-	7,061
Support Services	3,104	-	3,104
Non-instructional programs	9	450	459
Other expenses	1,318	-	1,318
Total expenses	11,492	450	11,942
Change in net assets	376	45	421

Property tax and unrestricted state grants account for 69% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 85% of the total expenses.

#### **Governmental Activities**

Revenues for governmental activities were \$11,867,343 and expenses were \$11,491,432.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
**(expressed in thousands)**

	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	7,061	5,493
Support Services	3,104	3,046
Non-instructional programs	9	9
Other expenses	<u>1,318</u>	<u>933</u>
Totals	<u>11,492</u>	<u>9,481</u>

- The cost financed by users of the District's programs was \$188,087.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,524,615.
- The net cost of governmental activities was financed with \$3,673,488 in property and other taxes and \$4,886,037 in unrestricted state grants.

**Business-Type Activities**

Revenues for business type activities were \$495,249 and expenses were \$449,851. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for food service, federal and state reimbursements and investment income.

During the year ended June 30, 2005, revenue increased 7% primarily due to increased participation. The fund balance increased over \$47,000.

**INDIVIDUAL FUND ANALYSIS**

As previously noted, Red Oak Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,860,478, an eight percent increase over last year's ending fund balances of \$4,484,567. Increased revenues were primarily responsible for the increase.

**Governmental Fund Highlights**

- The District's declining General Fund financial position is the result of several factors. The District has carefully monitored spending to avoid decreases in fund balances, however, uncertain funding from state and federal governments has made this difficult. The preservation of the General Fund balance is especially important in light of the State's decision to remove the budget guarantee.
- The Capital Projects Fund has decreased in balance due to using existing funds to complete various projects and property tax relief throughout the District.

**Proprietary Fund Highlights**

The School Nutrition Fund balance increased approximately \$47,000 during the fiscal year ending June 30, 2005. This was a result of increased participation.

## BUDGETARY HIGHLIGHTS

The District's receipts were \$175,025 higher than budgeted receipts, a variance of 1%. This variance resulted from the District receiving more tuition revenues.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had invested \$11,099,134, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 2% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expenses for the year was \$360,409.

The original cost of the District's capital assets was \$15,960,617. Governmental funds account for \$15,931,627, with the remainder of \$28,990 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the equipment progress category. The District spent \$163,552 on equipment during the year.

**Figure A-6**  
**Condensed Statement of Net Assets**  
**(expressed in thousands)**

	Governmental		Business-type		Total		Total
	Activities		Activities		School District		Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
	\$	\$	\$	\$	\$	\$	
Land	179	179	-	-	179	179	0.00%
Buildings	10,030	10,281	-	-	10,030	10,281	-2.44%
Furniture and equipment	880	823	10	13	890	836	6.46%
Totals	11,089	11,283	10	13	11,099	11,296	-1.74%

### Long-term Debt

The District has outstanding debt of \$8,730,000 for a new elementary school and additions to other buildings. The bonds will be paid off in the year 2020.

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future.

- The District receives local option sales tax money from Montgomery County. These funds are being used for debt reduction resulting in property tax relief for the taxpayers. The District also uses proceeds from the voted portion of the Physical Plant and Equipment Levy for debt reductions.

- Allowable growth as set by the Legislature is inadequate for the District to maintain its current programs without dipping into existing reserves.
- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", "GASB 34", reduction in state aid for juvenile homes and the unfunded PSEO mandate to name a few.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kevin Brummer, Superintendent, Red Oak Community School District, 904 Broad Street, Red Oak, Iowa 51566.

## Basic Financial Statements

## RED OAK COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	3,244,775	226,708	3,471,483
Receivables:			
Property tax:			
Current year	45,896	-	45,896
Succeeding year	3,547,724	-	3,547,724
Income surtaxes	274,305	-	274,305
Due from other governments	153,399	-	153,399
Other receivables	34,947	39	34,986
Inventories	-	11,683	11,683
Capital assets, net of accumulated depreciation (note 3)	11,088,521	10,613	11,099,134
<b>Total assets</b>	<b>18,389,567</b>	<b>249,043</b>	<b>18,638,610</b>
<b>Liabilities</b>			
Accounts payable	121,164	-	121,164
Accrued salary and benefits	999,326	28,824	1,028,150
Accrued interest payable	31,722	-	31,722
Deferred revenue:			
Succeeding year property tax	3,547,724	-	3,547,724
Long term liabilities:			
Portion due within one year:			
Bonds payable	435,000	-	435,000
Early retirement	99,153	-	99,153
Portion due after one year:			
Bonds payable	8,295,000	-	8,295,000
<b>Total liabilities</b>	<b>13,529,089</b>	<b>28,824</b>	<b>13,557,913</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	2,358,521	10,613	2,369,134
Restricted for:			
Physical plant and equipment levy	672,925	-	672,925
Debt service	8,101	-	8,101
Capital projects	187,752	-	187,752
Unrestricted, designated for cash flow	850,000	-	850,000
Unrestricted	783,179	209,606	992,785
<b>Total net assets</b>	<b>4,860,478</b>	<b>220,219</b>	<b>5,080,697</b>

See notes to financial statements.



## RED OAK COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2005

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
<b><u>Functions/Programs</u></b>						
Governmental activities:						
Instruction:						
Regular instruction	4,549,951	128,217	509,959	(3,911,775)	-	(3,911,775)
Special instruction	1,750,708	40,172	617,303	(1,093,233)	-	(1,093,233)
Other instruction	760,064	-	271,781	(488,283)	-	(488,283)
	<u>7,060,723</u>	<u>168,389</u>	<u>1,399,043</u>	<u>(5,493,291)</u>	<u>-</u>	<u>(5,493,291)</u>
Support services:						
Student services	299,819	-	5,484	(294,335)	-	(294,335)
Instructional staff services	422,038	-	-	(422,038)	-	(422,038)
Administration services	1,131,089	-	-	(1,131,089)	-	(1,131,089)
Operation and maintenance of plant services	904,146	-	32,831	(871,315)	-	(871,315)
Transportation services	346,738	19,698	-	(327,040)	-	(327,040)
	<u>3,103,830</u>	<u>19,698</u>	<u>38,315</u>	<u>(3,045,817)</u>	<u>-</u>	<u>(3,045,817)</u>
Non-instructional programs						
Food service operations	130	-	-	(130)	-	(130)
Community service and education	8,750	-	-	(8,750)	-	(8,750)
	<u>8,880</u>	<u>-</u>	<u>-</u>	<u>(8,880)</u>	<u>-</u>	<u>(8,880)</u>
Other expenditures:						
Facilities acquisition and construction	232,708	-	4,751	(227,957)	-	(227,957)
Long-term debt interest	389,060	-	569	(388,491)	-	(388,491)
Long-term debt services	400	-	-	(400)	-	(400)
AEA flowthrough	379,179	-	379,179	-	-	-
Depreciation (unallocated) *	316,652	-	-	(316,652)	-	(316,652)
	<u>1,317,999</u>	<u>-</u>	<u>384,499</u>	<u>(933,500)</u>	<u>-</u>	<u>(933,500)</u>
Total governmental activities	11,491,432	188,087	1,821,857	(9,481,488)	-	(9,481,488)

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2005

	Program Revenues				
		Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service				
\$	\$	\$	\$	\$	\$
Business-Type Activities:					
Non-instructional programs:					
Nutrition services	429,204	224,991	252,111	-	47,898
Enterprise	20,647	17,723	424	-	(2,500)
Total business-type activities	<u>11,941,283</u>	<u>430,801</u>	<u>2,074,392</u>	<u>(9,481,488)</u>	<u>(9,436,090)</u>
General revenues:					
Property tax levied for:					
General purposes			3,191,862	-	3,191,862
Management fund			247,452	-	247,452
Capital outlay			136,443	-	136,443
Debt service			97,731	-	97,731
Income surtaxes			578,731	-	578,731
Local option sales tax			591,734	-	591,734
Unrestricted state grants			4,886,037	-	4,886,037
Unrestricted investment earnings			53,329	-	53,329
Other			74,080	-	74,080
Total general revenue			<u>9,857,399</u>	<u>-</u>	<u>9,857,399</u>
Change in net assets			375,911	45,398	421,309
Net assets beginning of year			<u>4,484,567</u>	<u>174,821</u>	<u>4,659,388</u>
Net assets end of year			<u>4,860,478</u>	<u>220,219</u>	<u>5,080,697</u>

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Balance Sheet

## Governmental Funds

June 30, 2005

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Cash and pooled investments	2,199,554	6,853	142,632	671,220	224,516	3,244,775
Receivables:						
Property tax:						
Current year	39,853	1,248	-	1,705	3,090	45,896
Succeeding year	3,152,612	-	-	135,112	260,000	3,547,724
Income surtax - succeeding year	-	-	-	274,305	-	274,305
Due from other governments	108,279	-	45,120	-	-	153,399
Other receivables	34,947	-	-	-	-	34,947
<b>Total assets</b>	<b>5,535,245</b>	<b>8,101</b>	<b>187,752</b>	<b>1,082,342</b>	<b>487,606</b>	<b>7,301,046</b>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	118,519	-	-	-	2,645	121,164
Accrued salary and benefits	999,326	-	-	-	-	999,326
Deferred revenue:						
Succeeding year property tax	3,152,612	-	-	135,112	260,000	3,547,724
Income surtax - succeeding year	-	-	-	274,305	-	274,305
Total liabilities	4,270,457	-	-	409,417	262,645	4,942,519
Fund balances:						
Reserved for debt service	-	8,101	-	-	-	8,101
Reserved for capital projects	-	-	187,752	-	-	187,752
Unreserved, designated for cash flows	850,000	-	-	-	-	850,000
Unreserved	414,788	-	-	672,925	224,961	1,312,674
Total fund balances	1,264,788	8,101	187,752	672,925	224,961	2,358,527
<b>Total liabilities and fund balances</b>	<b>5,535,245</b>	<b>8,101</b>	<b>187,752</b>	<b>1,082,342</b>	<b>487,606</b>	<b>7,301,046</b>

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2005

<b>Total fund balances of governmental funds (Exhibit C)</b>			\$ 2,358,527
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>			
Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.			274,305
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.			11,088,521
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.			(31,722)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.			
General obligation bonds	(8,730,000)		
Early retirement	<u>(99,153)</u>	<u>(8,829,153)</u>	
<b>Net assets of governmental activities (Exhibit A)</b>			<u>\$ 4,860,478</u>

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Local tax	3,191,862	97,731	591,734	440,869	247,452	4,569,648
Tuition	144,052	-	-	-	-	144,052
Other	195,352	569	4,751	11,976	217,428	430,076
State sources	5,770,281	-	-	57	175	5,770,513
Federal sources	620,564	-	-	19,575	-	640,139
Total revenues	<u>9,922,111</u>	<u>98,300</u>	<u>596,485</u>	<u>472,477</u>	<u>465,055</u>	<u>11,554,428</u>
Expenditures:						
Instruction:						
Regular instruction	4,450,798	-	-	-	89,762	4,540,560
Special instruction	1,750,708	-	-	-	-	1,750,708
Other instruction	544,746	-	-	-	215,318	760,064
	<u>6,746,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>305,080</u>	<u>7,051,332</u>
Support services:						
Student services	299,819	-	-	-	-	299,819
Instructional staff services	422,038	-	-	-	-	422,038
Administration services	1,005,423	-	-	-	125,666	1,131,089
Operation and maintenance of plant services	879,325	-	-	24,821	-	904,146
Transportation services	305,397	-	-	39,874	-	345,271
	<u>2,912,002</u>	<u>-</u>	<u>-</u>	<u>64,695</u>	<u>125,666</u>	<u>3,102,363</u>
Non-instructional programs						
Food service operations	130	-	-	-	-	130
Community service and education	8,750	-	-	-	-	8,750
	<u>8,880</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,880</u>

RED OAK COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2005

	General	Debt Service	Capital Projects	Physical Plant and Equipment Levy	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$	\$
Other expenditures:						
Facilities acquisition and construction	-	-	347,346	9,040	-	356,386
Long-term debt:						
Principal	-	420,000	-	-	-	420,000
Interest	-	390,110	-	-	-	390,110
Services		400	-	-	-	400
AEA flowthrough	379,179	-	-	-	-	379,179
	<u>379,179</u>	<u>810,510</u>	<u>347,346</u>	<u>9,040</u>	<u>-</u>	<u>1,546,075</u>
Total expenditures	<u>10,046,313</u>	<u>810,510</u>	<u>347,346</u>	<u>73,735</u>	<u>430,746</u>	<u>11,708,650</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(124,202)</u>	<u>(712,210)</u>	<u>249,139</u>	<u>398,742</u>	<u>34,309</u>	<u>(154,222)</u>
Other financing sources (uses):						
Compensation for loss of capital assets	38,610	-	-	-		38,610
Operating transfers in	-	719,850	-	-	-	719,850
Operating transfers out	-	-	(500,000)	(219,850)	-	(719,850)
	<u>38,610</u>	<u>719,850</u>	<u>(500,000)</u>	<u>(219,850)</u>	<u>-</u>	<u>38,610</u>
Change in fund balances	(85,592)	7,640	(250,861)	178,892	34,309	(115,612)
Fund balances beginning of year	<u>1,350,380</u>	<u>461</u>	<u>438,613</u>	<u>494,033</u>	<u>190,652</u>	<u>2,474,139</u>
Fund balances end of year	<u><u>1,264,788</u></u>	<u><u>8,101</u></u>	<u><u>187,752</u></u>	<u><u>672,925</u></u>	<u><u>224,961</u></u>	<u><u>2,358,527</u></u>

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2005

**Net change in fund balances - total governmental funds (Exhibit E)** \$ (115,612)

**Amounts reported for governmental activities in the  
statement of activities are different because:**

Income surtax receivable at June 30, 2005 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 274,305

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 163,552	
Depreciation expense	<u>(357,993)</u>	(194,441)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 420,000

Early retirement expenses reported in the Statement of Activities do not require the use current financial resources and, therefore, are not reported as expenditures in the governmental funds. (9,391)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 1,050

**Change in net assets of governmental activities (Exhibit B)** \$ 375,911

## RED OAK COMMUNITY SCHOOL DISTRICT

## Combining Statement of Net Assets

## Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Enterprise	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	217,312	9,396	226,708
Other receivables	39	-	39
Inventories	11,683	-	11,683
Capital assets, net of accumulated depreciation	10,613	-	10,613
<b>Total assets</b>	<u>239,647</u>	<u>9,396</u>	<u>249,043</u>
<b>Liabilities</b>			
Accrued salary and benefits	28,824	-	28,824
<b>Total liabilities</b>	<u>28,824</u>	<u>-</u>	<u>28,824</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	10,613	-	10,613
Unrestricted	200,210	9,396	209,606
<b>Total net assets</b>	<u>210,823</u>	<u>9,396</u>	<u>220,219</u>

See notes to financial statements.



## RED OAK COMMUNITY SCHOOL DISTRICT

## Combining Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Funds

Year ended June 30, 2005

	School Nutrition	Enterprise	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>224,991</u>	<u>17,723</u>	<u>242,714</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	141,504	-	141,504
Benefits	73,691	-	73,691
Services	4,960	-	4,960
Supplies	205,110	-	205,110
Property	1,523	-	1,523
Depreciation	<u>2,416</u>	<u>-</u>	<u>2,416</u>
	<u>429,204</u>	<u>-</u>	<u>429,204</u>
Other enterprise operations:			
Services	<u>-</u>	<u>20,647</u>	<u>20,647</u>
Total operating expenses	<u>429,204</u>	<u>20,647</u>	<u>449,851</u>
Operating (loss)	<u>(204,213)</u>	<u>(2,924)</u>	<u>(207,137)</u>
Non-operating revenues:			
Interest on investments	4,325	424	4,749
State sources	5,952	-	5,952
Federal sources	<u>241,834</u>	<u>-</u>	<u>241,834</u>
	<u>252,111</u>	<u>424</u>	<u>252,535</u>
Change in net assets	47,898	(2,500)	45,398
Net assets beginning of year	<u>162,925</u>	<u>11,896</u>	<u>174,821</u>
Net assets end of year	<u><u>210,823</u></u>	<u><u>9,396</u></u>	<u><u>220,219</u></u>

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Combining Statement of Cash Flows

## Proprietary Fund

Year ended June 30, 2005

	School Nutrition	Community Education	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	224,952	17,723	242,675
Cash payments to employees for services	(201,046)	-	(201,046)
Cash payments to suppliers for goods or services	(199,536)	(20,647)	(220,183)
Net cash provided by (used in) operating activities	(175,630)	(2,924)	(178,554)
Cash flows from non-capital financing activities:			
State grants received	5,952	-	5,952
Federal grants received	224,378	-	224,378
Net cash provided by non-capital financing activities	230,330	-	230,330
Cash flows from investing activities:			
Interest on investments	4,325	424	4,749
Net increase (decrease) in cash and cash equivalents	59,025	(2,500)	56,525
Cash and cash equivalents beginning of year	158,287	11,896	170,183
Cash and cash equivalents end of year	217,312	9,396	226,708
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>			
Operating income (loss)	(204,213)	(2,924)	(207,137)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	2,416	-	2,416
Commodities used	17,456	-	17,456
(Increase) in other receivables	(39)	-	(39)
(Increase) in inventory	(5,399)	-	(5,399)
Increase in accrued payroll and benefits	14,149	-	14,149
	(175,630)	(2,924)	(178,554)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>			
Current assets:			
Cash	217,312	9,396	226,708

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005, the District received federal commodities valued at \$17,456.

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Statement of Fiduciary Net Assets

## Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts
	<u>\$</u>
<b>Assets</b>	
Cash	<u>69,153</u>
<b>Total assets</b>	<u>69,153</u>
<b>Net Assets</b>	
Reserved for scholarships	<u>69,153</u>
<b>Total net assets</b>	<u><u>69,153</u></u>

See notes to financial statements.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Statement of Changes in Fiduciary Net Assets

## Fiduciary Funds

Year ended June 30, 2005

	Private Purpose Trusts
	<u>\$</u>
Additions:	
Local sources:	
Miscellaneous	2,069
Deductions:	
Support services:	
Scholarships awarded	<u>4,115</u>
Change in net assets	(2,046)
Net assets beginning of year	<u>71,199</u>
Net assets end of year	<u><u>69,153</u></u>

**RED OAK COMMUNITY SCHOOL DISTRICT**

**Notes to Financial Statements**

**June 30, 2005**

**(1) Summary of Significant Accounting Policies**

Red Oak Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the City of Red Oak, Iowa, and agricultural territory in Montgomery, Page and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

**A. Reporting Entity**

For financial reporting purposes, Red Oak Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities.

The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Red Oak Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Montgomery County Assessor's Conference Board.

**B. Basis of Presentation**

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operation fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Physical Plant and Equipment Levy is used to account for the purchase of equipment and the repairing, remodeling and construction of buildings and land improvements.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the School Nutrition and Enterprise Funds. The School Nutrition Fund is used to account for the food service operations of the District. The Enterprise Fund is used to account for a student operated business.

#### C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2004.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2005.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.



Restricted Net Assets - In the government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, expenditures did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits at June 30, 2005 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2005, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$125,433</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest rate risk - The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

Credit risk - The investments in the Iowa School Joint Investment Trust were both rated Aaa by Moody's Investors Service.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>179,360</u>	<u>-</u>	<u>-</u>	<u>179,360</u>
Capital assets being depreciated:				
Buildings	13,336,025	-	-	13,336,025
Furniture and Equipment	<u>2,323,893</u>	<u>163,552</u>	<u>71,203</u>	<u>2,416,242</u>
Total capital assets being depreciated	<u>15,659,918</u>	<u>163,552</u>	<u>71,203</u>	<u>15,752,267</u>
Less accumulated depreciation for:				
Buildings	3,055,360	251,152	-	3,306,512
Furniture and Equipment	<u>1,500,956</u>	<u>106,841</u>	<u>71,203</u>	<u>1,536,594</u>
Total accumulated depreciation	<u>4,556,316</u>	<u>357,993</u>	<u>71,203</u>	<u>4,843,106</u>
Total capital assets being depreciated, net	<u>11,103,602</u>	<u>(194,441)</u>	<u>-</u>	<u>10,909,161</u>
Governmental activities, capital assets, net	<u>11,282,962</u>	<u>(194,441)</u>	<u>-</u>	<u>11,088,521</u>
<b>Business type activities</b>				
Furniture and Equipment	28,990	-	-	28,990
Less accumulated depreciation	<u>15,961</u>	<u>2,416</u>	<u>-</u>	<u>18,377</u>
Business type activities capital assets, net	<u>13,029</u>	<u>(2,416)</u>	<u>-</u>	<u>10,613</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Transportation				41,341
Unallocated				<u>316,652</u>
				<u>357,993</u>
Business type activities:				
Food service operations				<u>2,416</u>

### (4) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2005 is as follows:

	General Obligation Bonds
Balance beginning of year	\$9,150,000
Additions	-
Reductions	<u>420,000</u>
Balance end of year	<u>\$8,730,000</u>

**(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$324,780, \$320,150, and \$311,927 respectively, equal to the required contributions for each year.

**(6) Risk Management**

Red Oak Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(7) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$379,179 for year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(8) Bonds Payable**

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

<u>Year Ending June 30,</u>	<u>Interest Rates</u> %	<u>Interest</u> \$	<u>Principal</u> \$	<u>Total</u> \$
2006	3.05-3.25	377,381	435,000	812,381
2007	3.35-3.55	363,267	445,000	808,267
2008	3.65-3.80	347,398	465,000	812,398
2009	3.80-4.00	329,805	475,000	804,805
2010	4.00-4.10	310,840	495,000	805,840
2011	4.10-4.20	290,463	515,000	805,463
2012	4.20-4.30	268,645	545,000	813,645
2013	4.30-4.40	245,130	565,000	810,130
2014	4.40-4.50	220,190	590,000	810,190
2015	4.50-4.60	193,448	615,000	808,448
2016	4.60-4.70	164,965	645,000	809,965
2017	4.70-4.80	134,458	675,000	809,458
2018	4.80-4.85	101,865	715,000	816,865
2019	4.85-4.90	66,668	750,000	816,668
2020	4.90-4.90	29,400	800,000	829,400
Total		<u>3,443,923</u>	<u>8,730,000</u>	<u>12,173,923</u>

**(9) Bond Defeasance**

During the fiscal year ending June 30, 2002, the District refinanced its existing bonded indebtedness. Savings are estimated to be approximately \$350,000. The original issue is not callable until May 1, 2008. Funds from refinancing that are being held by Bankers Trust Company, are deemed to be sufficient to retire the old debt. \$8,320,000 of bonds are considered to be defeased at June 30, 2005.

**(10) Interfund Transfers**

The detail of interfund transfers for the year ending June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
Debt Service	Capital projects	\$500,000
	Special Revenue:	
	Physical Plant and Equipment Levy	<u>219,850</u>
	Total	<u>\$719,850</u>

## Required Supplementary Information

**RED OAK COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2005

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	5,143,776	247,463	5,391,239	5,328,864	5,328,864	62,375
State sources	5,770,513	5,952	5,776,465	5,729,788	5,729,788	46,677
Federal sources	640,139	241,834	881,973	816,000	816,000	65,973
Total revenues	11,554,428	495,249	12,049,677	11,874,652	11,874,652	175,025
Expenditures:						
Instruction	7,051,332	-	7,051,332	7,255,000	7,365,000	313,668
Support services	3,102,363	-	3,102,363	3,113,185	3,224,000	121,637
Non-instructional programs	8,880	449,851	458,731	503,000	503,000	44,269
Other expenditures	1,546,075	-	1,546,075	1,626,161	1,700,000	153,925
Total expenditures	11,708,650	449,851	12,158,501	12,497,346	12,792,000	633,499
Excess (deficiency) of revenues over (under) expenditures	(154,222)	45,398	(108,824)	(622,694)	(917,348)	808,524
Other financing sources (uses)	38,610	-	38,610	2,000	2,000	36,610
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(115,612)	45,398	(70,214)	(620,694)	(915,348)	845,134
Balance beginning of year	2,474,139	174,821	2,648,960	2,473,581	2,473,581	175,379
Balance end of year	2,358,527	220,219	2,578,746	1,852,887	1,558,233	1,020,513

See accompanying independent auditor's report.

**RED OAK COMMUNITY SCHOOL DISTRICT**

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$294,654.

During the year ended June 30, 2005, expenditures did not exceed the amounts budgeted in any of the four functions. The District did not exceed the General Fund unspent authorized budget.

## Other Supplementary Information



## RED OAK COMMUNITY SCHOOL DISTRICT

## Combining Balance Sheet

## Nonmajor Special Revenue Funds

June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	96,149	128,367	224,516
Property tax receivable:			
Current year	3,090	-	3,090
Succeeding year	260,000	-	260,000
<b>Total assets</b>	<u>359,239</u>	<u>128,367</u>	<u>487,606</u>
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Accounts payable	519	2,126	2,645
Deferred revenue:			
Succeeding year property tax	260,000	-	260,000
	<u>260,519</u>	<u>2,126</u>	<u>262,645</u>
Fund equity:			
Unreserved fund balances	<u>98,720</u>	<u>126,241</u>	<u>224,961</u>
<b>Total liabilities and fund equity</b>	<u>359,239</u>	<u>128,367</u>	<u>487,606</u>

See accompanying independent auditor's report.

## RED OAK COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances

## Nonmajor Special Revenue Funds

Year ended June 30, 2005

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	247,452	-	247,452
Other	1,048	216,380	217,428
State sources	175	-	175
Total revenues	248,675	216,380	465,055
Expenditures:			
Instruction:			
Regular instruction	89,762	-	89,762
Co-curricular instruction	-	215,318	215,318
Support services:			
Administration services	125,666	-	125,666
Plant operation and maintenance	-	-	-
Student transportation	-	-	-
Other expenditures:			
Facilities acquisition and construction	-	-	-
Total expenditures	215,428	215,318	430,746
Excess (deficiency) of revenues over (under) expenditures	33,247	1,062	34,309
Other financing sources(uses):			
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total operating financing (uses)	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	33,247	1,062	34,309
Fund balances beginning of year	65,473	125,179	190,652
Fund balances end of year	98,720	126,241	224,961

See accompanying independent auditor's report.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
SH Athletics	21,340	55,190	57,838	18,692
SH Band	3,422	2,541	2,979	2,984
SH Drama	1,237	1,237	1,064	1,410
SH FBLA	(1,996)	14,106	12,037	73
SH FFA	1,225	8,550	8,653	1,122
SH FHA	875	860	443	1,292
SH French Club	1,237	-	-	1,237
SH General	2,974	4,707	6,433	1,248
SH Graduation	12	120	132	-
SH Junior Class	541	8,177	8,235	483
SH Locks	99	-	-	99
SH Media	344	106	202	248
SH Protech Class	358	-	-	358
SH Senior Class	530	2,532	2,506	556
SH Speech	15	720	467	268
SH Student Council	1,391	1,695	1,933	1,153
SH Towels	27	-	-	27
SH Vocal Music	4,002	21,120	15,975	9,147
SH Yearbook	1,905	6,100	3,227	4,778
SH International Club	3,378	27	2,972	433
MS Band	(154)	5,709	5,513	42
MS Drama	4,387	6,384	4,725	6,046
MS FHA	133	1,683	1,815	1
MS General	1,828	2,652	3,469	1,011
MS Media	919	210	664	465
MS Student Council	1,035	575	315	1,295
MS Vending	1,012	7,113	8,084	41
MS Yearbook	819	4,302	4,418	703
4-5 General	1,472	764	664	1,572
4-5 Vending	(177)	2,701	2,283	241
K-3 General	3,006	7,217	9,518	705
K-5 Media	7,688	7,570	13,001	2,257
K-12 Petty Cash	-	600	600	-
K-12 Interest	40,867	3,900	195	44,572
K-12 General	6,516	126	698	5,944
SH General Resale	7	-	-	7
Band Boosters	3,913	4,052	3,280	4,685
Student Needs	75	-	-	75
Love Our Kids	1,189	-	-	1,189
SH Minnisingers	1,005	1,018	476	1,547
Dr. F.T. Fish Memorial	19	-	-	19
Cheerleader Club	129	7,933	7,294	768
SH Wrestling Cheerleader Club	14	1,249	830	433

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
MS Team 6	950	200	146	1,004
MS Team 7	1,075	406	352	1,129
MS Team 8	879	-	540	339
SH Football Club	269	244	-	513
Basketball Resale	1,011	-	886	125
Tennis Resale	514	1,023	1,209	328
Volleyball Contributions	301	-	301	-
Band Boosters Fiesta Bowl	566	15,974	16,247	293
Student Needs	445	-	-	445
SH Football Resale	-	1,335	244	1,091
SH Baseball Resale	(112)	574	462	-
SH Letterman's Club	744	1,501	1,549	696
SH G Basketball Resale	(738)	738	-	-
K-12 Special Olympics	355	-	-	355
K-12 Fine Arts	302	-	154	148
MS National Jr Honor Society	-	290	290	-
HS Track Resale	-	549	-	549
Total	<u>125,179</u>	<u>216,380</u>	<u>215,318</u>	<u>126,241</u>

See accompanying independent auditor's report.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Combining Statement of Fiduciary Net Assets

## Fiduciary Funds - Private Purpose Trusts

June 30, 2005

	Anderson Scholarship	Stanley Plank Scholarship	Klopping Trust	Bloom Scholarship	Lowell G. and Blanche Kinnison Scholarship	Leland Peterson Scholarship	Class of 38 Scholarship	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Assets</b>								
Cash	<u>42</u>	<u>10,036</u>	<u>22,601</u>	<u>20,118</u>	<u>7,417</u>	<u>7,218</u>	<u>1,721</u>	<u>69,153</u>
<b>Total assets</b>	<u>42</u>	<u>10,036</u>	<u>22,601</u>	<u>20,118</u>	<u>7,417</u>	<u>7,218</u>	<u>1,721</u>	<u>69,153</u>
<b>Net assets</b>								
Reserved for scholarships	<u><u>42</u></u>	<u><u>10,036</u></u>	<u><u>22,601</u></u>	<u><u>20,118</u></u>	<u><u>7,417</u></u>	<u><u>7,218</u></u>	<u><u>1,721</u></u>	<u><u>69,153</u></u>

See accompanying independent auditor's report.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Combining Statement of Changes in Fiduciary Net Assets

## Fiduciary Funds - Private Purpose Trusts

Year ended June 30, 2005

	Anderson Scholarship	Stanley Plank Scholarship	Klopping Trust	Bloom Scholarship	Lowell G. and Blanche Kinnison Scholarship	Leland Peterson Scholarship	Class of 38 Scholarship	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues:								
Local sources:								
Interest on investments	-	207	322	151	91	141	157	1,069
Contributions	-	-	-	-	-	-	1,000	1,000
	-	207	322	151	91	141	1,157	2,069
Expenditures:								
Instruction:								
Regular instruction:								
Other	-	440	360	315	500	1,000	1,500	4,115
Excess (deficiency) of revenues over (under) expenditures	-	(233)	(38)	(164)	(409)	(859)	(343)	(2,046)
Balance beginning of year	42	10,269	22,639	20,282	7,826	8,077	2,064	71,199
Balance end of year	42	10,036	22,601	20,118	7,417	7,218	1,721	69,153

See accompanying independent auditor's report.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2005	2004	2003	2002
Local sources:				
General	3,191,862	3,086,744	3,108,239	2,717,682
Special revenue	688,321	466,323	535,854	741,679
Debt service	97,731	-	-	55,782
Capital projects	591,734	543,347	525,945	503,482
	<u>4,569,648</u>	<u>4,096,414</u>	<u>4,170,038</u>	<u>4,018,625</u>
State sources:				
General	5,770,281	5,471,276	5,527,129	5,568,637
Special revenue	232	213	-	-
Capital projects	-	-	-	923,130
School nutrition	5,952	6,761	5,985	5,803
	<u>5,776,465</u>	<u>5,478,250</u>	<u>5,533,114</u>	<u>6,497,570</u>
Federal sources:				
General	620,564	614,537	391,145	295,068
Special revenue	19,575	-	-	-
School nutrition	241,834	225,227	231,146	202,365
	<u>881,973</u>	<u>839,764</u>	<u>622,291</u>	<u>497,433</u>
Total	<u>11,228,086</u>	<u>10,414,428</u>	<u>10,325,443</u>	<u>11,013,628</u>

See accompanying independent auditor's report.

## RED OAK COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY05	17,455
School Nutrition Cluster Programs:			
National School Breakfast Program	10.553	FY05	50,406
National School Lunch Program	10.555	FY05	173,972
			<u>224,378</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	5463-G-05	200,745
		5463-GC-05	26,475
			<u>227,220</u>
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY05	5,741
Enhancing Education Through Technology	84.318	FY05	14,155
Innovative Education Program Strategies (Title V) Program	84.298	FY05	6,225
Improving Teacher Quality - Grants to States	84.367	FY05	83,280
Grants for Assessments and Related Activities	84.369	FY05	9,645
Reading First - State Grants	84.357	FY05	188,581
Vocational Education - Basic Grants to States	84.048	FY05	46,999
Fund for the Improvement of Education	84.215	FY05	19,575
Green Valley Area Education Agency:			
Special Education - Grants to States (IDEA Part B)	84.027	FY05	68,895
Special Education - Grants to States (Success 4)	84.027	FY05	803
Total			<u>912,952</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Red Oak Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basis financial statements.

See accompanying independent auditor's report.



**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Board of Education of the  
Red Oak Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Red Oak Community School District as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 27, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Red Oak Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 05-II-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Red Oak Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Red Oak Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 27, 2005

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of the  
Red Oak Community School District:

Compliance

We have audited the compliance of Red Oak Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Red Oak Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Red Oak Community School District's management. Our responsibility is to express an opinion on Red Oak Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Red Oak Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Red Oak Community School District's compliance with those requirements.

In our opinion Red Oak Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Red Oak Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Red Oak Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Red Oak Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 05-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 05-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Red Oak Community School District and other parties to whom Red Oak Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

**BRUCE D. FRINK**  
**Certified Public Accountant**

September 27, 2005

**RED OAK COMMUNITY SCHOOL DISTRICT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance that is material to the financial statements.
- (d) A reportable condition in internal control over major programs was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
  - CFDA Number 10.550 - Food DistributionSchool Nutrition Clustered Programs:
  - CFDA Number 10.555 - National School Lunch Program
  - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Red Oak Community School District did not qualify as a low-risk auditee.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part II: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

05-II-A      SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part III: Findings For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

CFDA Number: 84.010 Title I Grants to Local Educational Agencies

Grant Numbers: 5463-G-05, 5463-GC-05

Federal Award Year: 2005

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

Federal Award Year: 2005

US Department of Agriculture

Passed through Iowa Department of Education

CFDA Number: 10.550 Food Distribution

Federal Award Year: 2005

US Department of Agriculture

Passed through Iowa Department of Education

05-III-A Segregation of Duties over Federal Funds - One important aspect of internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties that are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control system.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

05-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2005.

05-IV-B Certified Budget - Expenditures for the year ended June 30, 2005, did not exceed the amounts budgeted.

RED OAK COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2005

**Part IV: Other Findings Related to Required Statutory Reporting:**  
**(continued) :**

05-IV-C      Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

05-IV-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

05-IV-E      Business Transactions - Business transactions between the District and District officials or employees were noted as follows:

<u>Name, Title and Business Connection</u>	<u>Amount</u>	<u>Description</u>
Schmid Construction Spouse of Board Member	\$8,484	Construction

The transactions with Schmid Construction do not appear to represent a conflict of interest as they were in connection with an open bidding process.

Recommendation - We recommend that the District review these types of expenditures annually.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

05-IV-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

05-IV-G      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

05-IV-H      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

05-IV-I      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

05-IV-J      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.